

Example of the Financing Section of a DM

Note to TDA Contractors: Examples of completed TDA DMs are available at no cost by calling the TDA Library at (703) 875-4357. TDA is currently placing greater emphasis on the development of information necessary to attract project financing including analysis of economic feasibility and identification of potential sources of financing. To assist you in your estimation of the work involved and in the preparation of a DM Report, we are attaching examples of certain portions of Definitional Mission Final Reports that effectively respond to these TDA requirements.

Over time, additional examples will be placed in this section, so please check it frequently.

EXHIBIT A- I Provides an example of information required pursuant to "E. Implementation Financing." in the scope of work for a Definitional Mission. In particular, the example provides a description of the individuals contacted to confirm the availability of financing for the project as well as the content of the communications with those individuals.

In addition to the information provided in this example, the Definitional Mission Report Outline requires the Contractor to confirm the most likely source(s) so that the Contractor can design or confirm that the Terms of Reference fulfill the requirements of the most likely source(s) of implementation financing.

EXHIBIT A-2 Provides an example of portions of the Terms of Reference (specifically the economic analysis and cost analysis) which were designed to meet the requirements of potential source(s) of financing.

SOME WORDS HAVE BEEN INTENTIONALLY DELETED TO PROTECT PROPRIETARY INFORMATION

E. IMPLEMENTATION FINANCING

E.1 General Situation

The recent government difficulties and pressure from the IMF for budget reform are a serious problem for further foreign investment. In late February, the government rescinded Ordinance 92, the one year old law, providing five years of tax incentives for foreign investments. The lack of consistency is seen as a deterrent to attracting investments. It may have been a coincidence, but Chase Bank closed its offices and sold out to a Greek bank after the government announcement.

Oil exports from the Caspian, estimated to have a potential of 100 million tons per year, is a major project for Romania, as it can mean a substantial increase in the throughput at the port of Constanta. Since Turkey has imposed new regulations of transit of vessels through the Bosphorus, increases in direct shipments from the eastern ports on the Black Sea are unlikely. Possible demand through Romania is estimated at 30 million tons per year. Several pipeline routes to central Europe are under study. Ukraine has reached a deal with Germany and Poland to supply Russian oil through Odessa and are planning to improve their facilities. Constanta to Trieste pipeline, through Romania, Hungary, and Slovenia, by an American group has competition through Bulgaria, Yugoslavia, Bosnia, Croatia, and Slovenia. Combinations of alternative routes with a pipeline are being considered. Shipment by pipeline through Turkey direct to the Mediterranean is being proposed, as well as pipelines through Iran. Results of the several pipeline studies, involving Romania, are expected by June 1999.

The economic situation is not strong and industry is producing well below previous levels. Expansion of the Constanta oil importing facilities is probably unneeded if Romania is not selected as a transit point for Caspian crude oil. Romania had 34 million tons per year refining capacity, but they are operating at 17 million tons per year. Closure of additional refining capacity was front page economic news during the data gathering effort. The country's economic stagnation is reflected in low energy consumption. The country has 20,000 MW of installed generating capacity, but an estimate of usable generating capacity is 14,000 MW. Hydro-power accounts for 2,500 MW and nuclear 700 MW with the remaining relying on fossil fuels, oil and gas. Included in the overall total is 8,000 MW of generating capacity, relying on local lignite, and having some difficulty of operation. Electricity demand is at 6,000 MW.

Traffic in the Danube-Black Sea Canal is quite low. The canal offers a slightly shorter route into the Danube from the Black Sea, than natural waterways. However, small ports along the river and canal, offering special services may find a special market. The potential of the waterway is not being fully exploited.

The World Bank supported grain project is the culmination of a long effort by Romania to increase and privatize the grain industry. In 1991 the government passed 80% of the farm lands to the farmers. However, they did not provide for credits, machinery, pesticides, or fertilizers and the newly independent farmers were unable to modernize and Increase production. In 1996 the government introduced reforms to spur competition by providing a

system of credit vouchers for seed, fertilizers and machinery purchasers. The World Bank is supporting this effort. Based on the World Bank study, Romania is expected to become a major producer, and along with Hungary will be able to export grain.

E.2 The World Bank

The World Bank is promoting a large new grain terminal in Constanta. The area is designated as 'dock 3S, which is partially constructed requiring closure of the retaining structure, filling of the area, preparation of the jetty (s), and connecting utilities. The bid documents are under preparation by the Ministry of Transport. Within three years, the World Bank hopes to have the first phase in operations, and maybe another phase five years later.

The key to the grain terminal project is the concession agreement that includes having a qualified investor operator for the terminal. The World Bank requires the selection process be open, arms length, and international in nature. The preparation of the qualification and tendering documents and approval of the process is expected to receive cabinet approval in early March 1999. The World Bank will not release the loan until the concession agreement is in place.

The World Bank considers grain exports a crucial project and is prepared to provide partial guarantees to the private sector for their share of the investment.

The World Bank Washington office was contacted

Project Manager for a World Bank-sponsored Grain Export Terminal in Romania). The purpose was to inquire about a World Bank-sponsored Grain Export Terminal. Mr.

the person in charge of negotiating this project on behalf of the Bank. He is on mission until May 150', however, and cannot be reached. his

superior, said that only, knows the details of the project at this moment.

has informed us that the project has not" reached negotiation because the Government of Romania has not allowed it to do so. Efforts continue to try to bring it to negotiations. No further information is available at this time.

E.3 European Bank for Reconstruction and Development (EBRD)

EBRD has been approached for financing on the LPG project. Specific financing for terminal facilities in Constanta port have not been sought. EBRD does not believe the Romanian port authority has available funds for infrastructure facilities and/or improvements specifically required for an LPG terminal. Generally, EBRD will not provide funding for public sector projects. They are quite flexible on the criteria for funding private sector projects. Besides the normal guarantee arrangements, they may consider loans based on strong and valid projections of projected revenues.

Potential port projects in Constanta are being discussed. The port has many private operators, with three or four big ones, mostly old State companies.

A bitumen terminal is under consideration or development (company name is in the south port. The need for bitumen is high as a facility (new or rehabilitated) is operating in

Mangalia, south of Constanta near the Bulgarian border. Mangalia was principally a military port, but now is trying to develop into a commercial port and shipyard.

The shipyard in Constanta is to be privatized. EBRD is going to provide some financing for a shipyard at one of the smaller ports to the north.

A passenger terminal does not have traffic yet. A new Turkish line from Odessa to Istanbul with a stopover in Constanta is operating on a trial basis. Some Ro/Ro traffic is being done with the vessels owned by the Romanian Railways.

The port is looking for a \$6 million project for port administration reorganization.

E.4 International Finance Corporation (IFC)

The International Finance Corporation does not have any projects in the Port of Constanta. They have been approached in respect to the LPG terminal, but no formal application yet. The project has been discussed for at least five years, but is not yet resolved. With a good project the IFC is prepared to finance part of it, with the U.S. and/or Romanian interests. Since the project was first raised, changes in the market situation concerning the sources of supply, supply cost, and demand have occurred. Market-share is being lost to new arrangements with Hungary and Russia. In spite of the changes, IFC is still interested to fund a viable project.

The IFC is ready to provide funding for the grain project, after concessionaire selection. They are prepared to invest in the private sector area responsibility for the terminal's superstructure portion.

The IFC Washington Office was contacted to inquire about the proposed S.C. Oil Terminal Rehabilitation, Upgrading and Modernization project.
reply to its position on the project is as follows:

'I refer to a telephone discussion you had with _____ regarding a port project in Romania - and the email _____ forwarded to me. As _____ told you, _____ is currently traveling and may later get back to you should her conclusion be different from mine. In brief, to respond to your question.

- 1. In pi-principle, the IFC is interested in port projects as long as they make commercial sense and are privately owned. Ports (and infrastructure in general) is handled in IFC ultimately by a Industry Department, which has specialized knowledge on these project, the regional department, which I and represent, only handle initial contacts / initial inquiries in the country. On the long term, the best / right contact for port project in IFC would be _____ (I have passed this email and you previous Email to him).*
- 2. On the positive side: infrastructure is one of IFCs core areas of growth and we look forward to significant increases in activities in the near future.*

3. *On the negative side: the port, as you described, is still government owned, and thus IFC could not be involved unless there would be an immediate plan to privatize the port. The other negative issue may be the size of the investments ownership structure. The port is clearly large and critical to the country but I get the impression that the private ownership is currently local. A large investment of this nature in a country with relatively little experience in private sector infrastructure projects would imply that a large bankable deal requires a large Western partner. I am certain that our infrastructure staff will be able to be more specific once you have finished the feasibility study."*

E.5 Overseas Economic Cooperation Fund (OECF)

The new container terminal is designated to be developed on dock 2S. Civil works are essentially completed with the first phase of equipment to be financed through a ±US\$ 100 million Japanese OECF loan. In order for the loan to be effective, at least 20% counterpart funding must be provided. The loan has not been effected yet as counterpart financing has not been obtained. Dock 2S is dedicated for the container terminal, as Silotrans wanted to have a small area for the grain, but could not get it.

E.6 Exim Bank

According to Exim's Country Limitation Schedule (CLS) as of October 15, 1998, the Bank is on full cover for public sector operations and on full coverage for private sector operations, however in the case of the latter, the following limitations apply:

Discretionary Credit Limits under Short Term Insurance Policies are withdrawn. Cover not available unless specified in a Special Buyer Credit Limit, Issuing Bank Credit Limit endorsement, Country Limit of Liability endorsement. Prior to accepting an application for a preliminary or final commitment for a public sector transaction, or for any insurance for a public sector transaction,

Exim Bank will require an indication of host government support for the application. Contact Exim Bank for more detailed information on specific markets. Exim Bank cover/support for short and medium-term private sector transactions is typically limited to transactions with a commercial bank as obligator or guarantor unless otherwise specified by Exim Bank. Exim Bank cover/support for public sector transactions is typically limited to transactions which commit the full faith and credit of the government. Although dosed for certain routine trade finance transactions, Exim Bank will consider structured financing arrangements such as Exim Bank's project finance program, asset-based aircraft leases, and other financing arrangements that offer a reasonable assurance of repayment, including reliable access to adequate foreign exchange.

According to discussions with _____ Exim requires Ministry of Finance guarantees for all of their lending in Romania now, as in their point of view, there is no viable private sector entity that has the kind of audited accounts that Exim would find acceptable.

_____ also informed that Romania is possibly on the verge of default with the IMF. It has had, for instance, difficulty with a recent Euro Bond issue and is negotiating with the IMF for loan re-scheduling-but there are serious problems with Romania's ability to meet IMF conditions. Romania is also slow paying at this point, according to Exim.

Exim just concluded a \$67 million agriculture deal but it took 3 years to get the deal done. The guarantor for the deal: _____ itself is now in trouble and had to be bailed out by the government; over 85% of its loans are deemed uncollectible. Whereas repayment of the Exim loan would not commence for at least one more year, according to _____ if the outlook for Romania does not improve, the country may have difficulty repaying the Exim loan. From Exim's point of view, it would be very difficult to do any large deal at this time in Romania.

_____ referred the consultant to _____ which has a full banking license in Romania, in order to get the commercial banking outlook on Romania.

E.8 OPIC

E.8.1 OPIC Re: Insurance Coverage for Romania

_____ provided the following email reply in response to the project S.C. Oil Terminal description.

'Thank you for your inquiry and interest in OPIC.

_____ will respond to you separately

with respect to financing from OP/C. Regarding political risk insurance, we can provide coverage for a U. S. entity, one that is over 50% beneficially owned by U. S. citizens. We can provide coverage in Romania for political violence, expropriation, and offshore accounts if the government of Romania has given the U.S. investor a clear right to hold such an account I can explain this coverage further to you over the phone. We can cover debt, equity, leases, bid and performance bonds, among other instruments. I also suggest that you look at our program handbook on our website - www.opic.gov. To answer your question about this specific project, OP/C could provide political risk insurance of up to \$200 million to a U.S. investor involved in this project. The project would have to meet, among other criteria, OPIC's environmental guidelines. These are, in general, based on the World Bank/IFC environmental guidelines. Please do not hesitate to contact me further at

E.8.2 OPIC Financing

. provided the following email reply in response to the project terminal description.

"Thank you for giving me the highlights of your proposed project for the renovation, rehabilitation & upgrading of the S. C. Oil Terminal in Constanta Port in Romania. As you know and I mentioned by telephone, OPIC's mission is to support long-term, private overseas investment projects with significant U. S. equity. OPIC financing and insurance programs are open for business in Romania. OPIC can provide debt financing through the project financing mechanism. OPIC can also provide political risk insurance for political violence and expropriation coverage for the U. S. portion of the investment. In addition, the project may be eligible for equity financing through independently managed OPIC supported funds.

OPIC could consider providing project financing for up to 50% of the total project cost, not to exceed \$200 million. Consideration, for the loan would be. subject to, OPIC's comprehensive project review process, including confirmation of the viability of the project and approval by OPIC's management and Board of Directors. Confirmation of the viability of the project will require, among other things, evidence satisfactory to OP/C that: (i) the project meets OPIC's financial plan requirements; (ii) the sponsors have a successful track record, (iii) the sponsors have the credit quality to make the equity investment and project completion guarantees, (iv) the project satisfies World Bank, host country and other applicable environmental guidelines, (v) project completion risks are adequately covered, including both physical and operational completion; (vi) project owners and managers have adequate experience with the operation and maintenance of the technology to be utilized, (vii) the technology to be used is adequately proven; and (viii) the project meets OPIC's policy criteria. Of course, other requirements may be identified during the comprehensive project review process. OPIC's criteria and policies are outlined in our program handbook, finance and insurance applications, and supporting materials.

E.9

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As a general guideline and assuming the above conditions are met, OPIC could provide long term "limited-recourse project financing" to the project ranging from 5 to 12 years and at market rates of interest. OPIC looks for at least 25% of the project equity to be qualified U.S. investment. The project should have a debt-to-equity ratio of no more than 1.5. Moreover, OPIC requires that the proposed project be majority owned and/or controlled by the private sector investors. "

Private Banks and Other Sources

E.9.1 Private Bank

has extensive experience in Romania from a transaction point of view. Based on his experience, his outlook on the prospects for commercial lending to Romania is not favorable, nor would he easily recommend involvement in projects that were not short term. He explained that it took two years to close a deal that should have taken six months. The Bank had to steer government every step of the way, as the government had a hard time both making and sticking to decisions. It is very difficult dealing with the government apparently. One of the major problems is that in experience, government approvals could not necessarily be honored, as deals were signed by Cabinet and then reversed.

One of deals involved farmer coops. The government set up an autonomous company as a liaison between themselves and the coops but have so far has shown that the government is not good a steward over its own money.

Romania has been downgraded twice in past year and a half, for apparent good reason. Not many financial institutions are willing to take risks, especially not medium or long term risks of the type that would be involved in the oil and gas sector where there are medium to long term payment schedules. suggested that he ever recommended further involvement it would have to be for short term projects, otherwise any medium to long term projects would have to be fantastic-even then, he would want to see some upfront money.

E.9.2 Other Sources

The purpose of our inquiry with was to inquire about their knowledge of the World Bank-sponsored Grain Export Terminal. informed that as Romania is neither a major exporter nor importer of grain, he does not monitor it closely. He was somewhat surprised, however, to learn that the World-Bank would be sponsoring such a terminal, as he could not imagine that Romania has a sufficient enough quantity of grain exports to justify such a project and that also to his knowledge most of Romania's

grain exports go to Russia on rail cars.

The purpose of our inquiry with the U.S. Feed Grains Council was to inquire about their knowledge of the World Bank-sponsored Grain Export Terminal. _____ had not heard about the project but knows that the World Bank has spent a lot of time there recently and that it is therefore probable that they would be involved in such a project

E.10 Recommended Project

The recommended project for Rehabilitation, Upgrading and Modernization of the S.C. Oil Terminal will be difficult to finance with outside funding at this time. Development and private banks are hesitant to extend loans for infrastructure development, considering the governments present difficulties. Operating companies, with the state as a principal shareholder, face the same difficulties.

The project is recommended for TDA grant funding, because S.C. Oil has limited funds available for starting this critical project, without relying on outside financial assistance. The terminal is prepared to embark on the first phase with US\$10 million program. A priority rating of assignments and work tasks is to be developed within the financial constraints, condition of the facilities, and the operating requirements. Supplier credits, development bank, Exim. Bank, private bank, or other funding that may become available will result in increasing the number and scope of work tasks.

Sufficient funding is available to begin project implementation. Introduction of U.S. equipment and technology to rehabilitate and upgrade the terminal is a principal objective of the management. Future projects will be implemented as part of their ongoing program and establishing a U.S. base will lead to further exports of equipment, supplies, and services.

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The estimate will be used as a basis for the economic analysis and for other assessments which might be part of various reviews by investors, partners, lenders, Export Credit Agencies (ECAs) or other similar multilateral lender or guarantors.

The estimate will be in sufficient detail so that individual cost elements can be incorporated into financing packages which may have ECA guarantees.

it is not intended that the estimate either exceed or fall short of the levels of accuracy achievable with the documentation developed as part of the Technical Feasibility Assessment and Preliminary Design as described in Element C above.

As a minimum, the estimate should be broken down to indicate those elements which will be constructed in each country.

2. Consultant will prepare 20 year variable and direct operating cost estimates. Variable costs will be used in conjunction with capacity factors developed in Element 'A' above to determine time based operating costs.

Task D - Project Cost Analysis

1. Consultant will prepare a capital and operating cost estimate for the scenario selected for the Technical Feasibility Assessment and Preliminary Design as described in Element C above.

The operating costs should be in sufficient detail to allow analysis of primary components such as operating costs, maintenance, etc.

3. Consultant will prepare estimates of start-up costs.

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4. Consultant will prepare estimates of working capital requirements.
5. Consultant will prepare estimates of interest during construction.
6. Consultant will prepare estimates of debt service charges based on advice from the U.S. Ex-Im Bank, OPIC, EBRD and other institutional and non-institutional sources.

Consultant shall clearly state equity, and terms assumptions and their rationale. Equity recommendations should take into account industry practices for similar projects requiring the types of financing.

Consultant will highlight lender or guarantor requirements which will be necessary to facilitate financing.

7. Consultant will develop the basis for taxes to be applied in the economic analysis in Element "E".

Task E - Project Economic Analysis

Consultant will refine the model developed as part of Element "C". It is intended that this model be sufficiently flexible to allow a number of sensitivity assessments to be developed. It is also intended that the model contain the information needed to satisfy the requirements of the developer, sponsor, potential partners, investors, lenders or other financial interests.

The primary economic components for each option should cover a 20 year period.

The Project Economic Analysis will be developed to express the economics of the pipeline in terms of provisional pipeline tariffs.

1. As part of the process of developing and presenting the tariff calculations, Consultant will:
 - a) Discuss various tariff-setting mechanisms and explain the reasons for selection of the method applied
 - b) Consult the tariff-setting mechanism with potential lenders to confirm that the tariff setting mechanism is acceptable under the assumed debt financing scenario
 - c) Consultant will recommend an Internal Rate of Return (IRR) which would be reasonable considering the IRR derived from similar pipelines in other regions of the world. The IRR will be used in order to establish a provisional tariff;
 - d) Consultant will discuss a balanced dividend or profit sharing approach which might be acceptable to potential investors; and
 - e) Consultant will estimate the tariff that will be paid to Russia in exchange for their granting right-of-way for the pipeline. Consultant will take into account transit tariffs charged by other countries for similar right-of-way use derived from similar pipelines in other regions of the world. Consultant is reminded that transit tariffs are very sensitive issues

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and no prenegotiation or exploration should be undertaken.

requirements, debt structure and terms, and schedule.

2. Consultant will develop the economic analysis as follows:

- Estimated revenues considering capacity factors developed in Element "A" over 20 years;
- Estimated costs considering the components developed in Element "D";
- Estimated IRR as developed in Element "E".
- Tariff as a resultant of backward calculation of the WR to tariff considering all other cost factors;
- Develop Total Tariffs by adding to IRR based tariff to estimated transit based tariffs payments.
- Develop the price of gas at the point of sale from Gazprom.

It is intended that the resultant represent the price of gas to Astana consumers so that Grantee can assess feasibility of the gas purchase and transport cost to Astana

2. Consultant will present a detailed financial model over a 20 year period including:

Cash flow with NPV & IRR;
Profit and Loss;
Source and application of funds
statements;

Task F - Project Execution Strategy

1. Consultant will prepare a logic diagram based schedule indicating primary critical paths and milestones. The schedule should recognize staged completions and partial turn overs if necessary.

The schedule analysis should include a cash flow and cash commitment schedule to be used for estimating funding timing and interest during construction.

The overall schedule should be

summarized in a Level I presentation with Level 11 schedule supporting the Level 1. A Level III Schedule should be prepared for the following stages:

- * Financing Activities; and
 - o Front-end Engineering and Design.

2. Consultant should identify long lead procurement items such as compression stations, pipe, high horse power drivers, and electric power generators and recommend early procurement actions the project developer

might initiate.

3. Consultant will prepare an overall construction manpower requirements

Debt service ratios;
Pro forma Balance sheet; and
Sensitivity analyses on capacity
factors, tariffs, gas prices, capital

estimate identifying critical craft
such as welders and equipment op
erators. Consultant will determine if
sufficient craft labor will be avail-

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able in each country during the period of construction.

4. Consultant will recommend a structure for the Operating Company. This organizational structure and personnel count will be used to estimate operating expenses in Element "D".
5. Consultant will describe the primary legal and tax issues which might impact the project development process.